

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Davison-Richfield Area Fire Authority</b>	County <b>Genesee</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>8/17/05</b>	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Plante &amp; Moran, PLLC</b>			
Street Address <b>111 East Court Street, Suite 1A</b>		City <b>Flint</b>	State <b>MI</b>
Accountant Signature <i>Leahy Haw</i>		ZIP <b>48502</b>	Date <b>9/26/2005</b>

**Financial Statements**  
**Davison-Richfield Area Fire Authority**  
**Davison, Michigan**  
**For the Year Ended June 30, 2005**  
*with Independent Auditors' Report*

**Davison – Richfield Area Fire Authority  
Annual Financial Report  
For the Fiscal Year Ended June 30, 2005**

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## **Introductory Section**

**Davison - Richfield Area Fire Authority  
Davison, Michigan  
List of Appointed Officials and Fire Chief**

**Appointed Officials**

Pete Auger	Chairperson
Lisa Holmes	Vice Chairperson
Jim Jacques	Secretary
Kurt Soper	Treasurer
Mike Christopherson	
Tim Elkins	
Ron Emery	

**Fire Chief**

Mike Wright

## **Financial Section**

*Independent Auditors' Report*

Davison – Richfield Area Fire Authority Board  
Davison – Richfield Area Fire Authority  
Davison, Michigan

We have audited the financial statements of the governmental activities of the Davison - Richfield Area Fire Authority, Davison, Michigan (Authority) as of June 30, 2005, and for the year then ended, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph, present fairly, in all material respects, the respective financial position of the governmental activities of the Davison - Richfield Area Fire Authority, Davison, Michigan at June 30, 2005, and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 - 5 and the information in the required supplementary information section on page 17 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Plante & Moran PLLC*  
Certified Public Accountants  
Flint, Michigan

August 17, 2005

## **Management's Discussion and Analysis**



**Davison – Richfield Area Fire Authority  
Management's Discussion and Analysis  
June 30, 2005**

As management of Davison – Richfield Area Fire Authority (Authority), we offer readers of Davison – Richfield Area Fire Authority's financial statements this narrative overview and analysis of the financial activities of the Authority.

The basic financial statements for the Authority are comprised of the governmental fund balance sheet/statement of net assets, combined statement of revenues, expenditures, and changes in fund balances/statement of activities and notes to the financial statements.

The statement of net assets presents the information of the governmental fund for both the assets and liabilities, with the difference between the two reported as net assets.

The statement of activities presents information showing how the governmental fund's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the governmental fund financial statements.

### **Financial Highlights**

The government-wide financial analysis focuses on the Statement of Net Assets and the Statement of Activities. The total assets of the Authority are \$2,741,584 of which \$1,986,657 represents cash, cash equivalents, and investments. The liabilities are \$50,736, which represents amounts due to vendors of \$8,258 and \$42,478 of accrued wages, leaving current net assets of \$2,690,848.

Net assets increased \$134,276 for the Authority as a result of \$467,564 in fire protection expenses which are offset by direct charges for services of \$495,078 and general revenues of \$106,762. Charges for services from municipal billings of \$481,548 were generated from fire runs which are charged to the individual participating units based on the location of the fire runs. During the fiscal year ended June 30, 2005, the Authority had a total of 364 runs. 307 of the total runs were billed to the participating units at a per fire run charge of \$1,477; 57 of the total runs were mutual aid/weather runs billed at \$492 per run. The Authority generated inspection income in the amount of \$13,530.

Net assets invested in capital assets amount to \$606,864 leaving unrestricted net assets of \$2,084,721.

Capital assets, net of accumulated depreciation, totaled \$606,864 at June 30, 2005. These assets are depreciated over various lives based on the type of asset. Accumulated depreciation to date is \$1,402,817. Should the Authority ever disband the capital assets are to be allocated based on the contributions made by each participating unit for specific years. These percentages are calculated yearly and are detailed by year in the notes to the financial statements.

The revenue collected for fire runs is allocated as follows: future equipment replacement \$60; future vehicle replacement \$387; and normal operations \$1,030 for regular runs and \$45 for mutual aid/weather runs. Therefore, the majority of the unrestricted net assets are being set aside for future equipment and vehicle expenditures. At June 30, 2005, \$1,729,797 was set aside for future vehicle expenditures and \$325,742 was set aside for future equipment expenditures.

## Government-wide Financial Analysis

### Davison-Richfield Area Fire Authority's Net Assets

#### Governmental Activities

	<u>2005</u>	<u>2004</u>
Current and other assets	\$2,134,720	\$1,938,392
Capital assets	<u>606,864</u>	<u>686,395</u>
Total assets	<u>2,741,584</u>	<u>2,624,787</u>
Liabilities	<u>50,736</u>	<u>68,215</u>
Net assets:		
Invested in capital assets	606,864	686,395
Unrestricted	<u>2,083,984</u>	<u>1,870,177</u>
Total net assets	<u>\$2,690,848</u>	<u>\$2,556,572</u>

### Davison-Richfield Area Fire Authority's Capital Assets - Net of Depreciation

#### Governmental Activities

	<u>2005</u>	<u>2004</u>
Alarm equipment	\$ 1,268	\$ 1,691
Trucks and vehicles	535,455	586,592
Radio equipment	9,566	12,936
Fire fighting equipment	13,377	23,090
Fire hall equipment	25,097	35,825
Building improvements	17,101	11,261
Building and land	<u>5,000</u>	<u>15,000</u>
Total	<u>\$606,864</u>	<u>\$686,395</u>

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Davison-Richfield Area Fire Authority, assets exceeded liabilities by \$2,691,585.

By far the largest portion of the Authority's net assets (77%) reflects its investment in unrestricted purposes.

Current and other assets increased \$197,065 from prior year due to excess revenues over expenditures. Capital assets decreased \$79,531 due annual depreciation. Liabilities decreased due to the prior year balance including a bill for uniforms and supplies.

**Davison-Richfield Area Fire Authority's  
Changes in Net Assets**

**Governmental Activities**

	<u>2005</u>	<u>2004</u>
Revenues		
Program revenues:		
Charges for services	\$ 495,078	\$ 577,753
General revenues:		
Interest income	106,717	4,814
Miscellaneous income	45	2,842
Total revenues	<u>601,840</u>	<u>585,409</u>
Expenses:		
Fire protection	<u>467,564</u>	<u>453,716</u>
Total expenses	<u>467,564</u>	<u>453,716</u>
Increase (decrease) in net assets	134,276	131,693
Net assets - beginning of the year	<u>2,556,572</u>	<u>2,424,879</u>
Net assets - end of the year	<u><u>\$2,690,848</u></u>	<u><u>\$2,556,572</u></u>

Charges for services decreased \$82,675 and is made up of two components; municipal billings and inspection income. Municipal billings decreased \$91,195 due to 63 less runs in fiscal year 2005. Inspection income increased \$8,520 mainly due to 2005 being the first full year of right-to-know inspections. Interest income increased \$101,903 primarily due to a large certificate of deposit maturing in 2005.

Fire protection expenses and net increase in net assets is consistent with prior year.

## **Basic Financial Statements**

**Davison-Richfield Area Fire Authority**  
**Statement of Net Assets and**  
**Governmental Fund Balance Sheet**  
**Governmental Fund**  
**June 30, 2005**

	<u>Governmental Fund</u>	<u>Adjustments (Note II A)</u>	<u>Statement of Net Assets</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 905,317	\$ -	\$ 905,317
Investments	1,081,340	-	1,081,340
Accounts receivable	12,613	-	12,613
Due from other governments	134,991	-	134,991
Deposits	459	-	459
Capital assets, net of depreciation	-	606,864	606,864
Total assets	<u>\$ 2,134,720</u>	<u>606,864</u>	<u>2,741,584</u>
<b>Liabilities</b>			
Accounts payable	\$ 8,258	-	8,258
Accrued wages	42,478	-	42,478
Total liabilities	<u>50,736</u>	<u>-</u>	<u>50,736</u>
<b>Fund Balances/Net Assets</b>			
Fund balances:			
Reserved for equipment purchases	325,742	(325,742)	-
Reserved for vehicle purchases	1,729,797	(1,729,797)	-
Unreserved and undesignated	28,445	(28,445)	-
Total fund balances	<u>2,083,984</u>	<u>(2,083,984)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 2,134,720</u>	<u>-</u>	<u>-</u>
<b>Net assets:</b>			
Invested in capital assets		606,864	606,864
Unrestricted		2,083,984	2,083,984
Total net assets		<u>\$ 2,690,848</u>	<u>\$ 2,690,848</u>

*See notes to financial statements.*

**Davison-Richfield Area Fire Authority  
Statement of Activities and  
Governmental Fund Revenues, Expenditures, and  
Changes in Fund Balance  
Governmental Fund  
Year Ended June 30, 2005**

	<u>Governmental Fund</u>	<u>Adjustment (Note II B)</u>	<u>Statement of Activities</u>
<b>Expenditures/expenses:</b>			
Fire protection	\$ 388,033	\$ 79,531	\$ 467,564
<b>Program revenues:</b>			
Charges for services:			
Municipal billings	481,548	-	481,548
Inspection income	13,530	-	13,530
Total program revenues	495,078	-	495,078
Net program revenue		(79,531)	27,514
<b>General revenues:</b>			
Interest income	106,717	-	106,717
Miscellaneous	45	-	45
Total general revenues	106,762	-	106,762
Excess (deficiency) of revenues over expenditures	213,807	(79,531)	134,276
<b>Fund balance/net assets:</b>			
Beginning of the year	1,870,177	686,395	2,556,572
End of the year	\$ 2,083,984	\$ 606,864	2,690,848

*See notes to financial statements.*

## **Notes to Basic Financial Statements**

**Davison – Richfield Area Fire Authority**  
**Notes to Financial Statements**  
**June 30, 2005**

**I. Summary of significant accounting policies**

The accounting policies of the Davison – Richfield Area Fire Authority (Authority) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Davison – Richfield Area Fire Authority.

**A. Reporting entity**

The accompanying financial statements present the government and its component units, legally separate entities for which the Authority is considered to be financially accountable. The Authority did not have any component units at June 30, 2005.

The Davison – Richfield Area Fire Authority was formed by an agreement between the City of Davison, Davison Township, and Richfield Township, to operate a fire department on a shared cost basis. The Authority is governed by a seven member board appointed by the governing bodies of the participating members. The agreement provides that each unit will appropriate funds to the Authority based on \$1,477 for each fire run in its jurisdiction and \$492 for each mutual aid fire run/weather call.

In addition, the Board of the Authority is required to submit an annual operating budget to the governing body of each municipality for approval. Any of the members may withdraw from the Authority by giving written notice one year prior to withdrawal. The withdrawing party shall receive a share of the equity of the Authority as provided in the agreement. (See Note 2B for each unit's percentage share of fixed assets.)

The following are the contributions made by the Authority members for the year ended June 30, 2005:

	<u>Total</u>	<u>City of Davison</u>	<u>Richfield Township</u>	<u>Davison Township</u>
Municipal billings	<u>\$481,548</u>	<u>\$ 93,552</u>	<u>\$137,866</u>	<u>\$250,130</u>

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct* expenses are those that are clearly identifiable with fire protection. *Program revenues* include 1) charges to customers or governments who purchase, use, or directly benefit from fire protection or services, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of fire protection. Other items not properly included among program revenues are reported instead as *general revenues*.



**Davison – Richfield Area Fire Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2005**

**I. Summary of significant accounting policies – (continued)**

**C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Municipal billings associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following governmental fund:

General Fund - The General Fund is the general operating fund of the Authority. It is used to account for all financial resources.

**D. Assets, liabilities, and net assets or equity**

**1. Cash and cash equivalents**

The Authority's cash and cash equivalents include demand deposits and sweep money market funds.

**2. Investments**

Investments are stated at fair value. A certificate of deposit with a maturity date of greater than three months of time of purchase has been recorded as an investment on the financial statements.

**3. Capital assets**

Capital assets, which include land buildings, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the authority as personal property assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**Davison – Richfield Area Fire Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2005**

**I. Summary of significant accounting policies – (continued)**

**D. Assets, liabilities, and net assets or equity – (continued)**

**3. Capital assets – (continued)**

All real property purchased by the Authority must be titled in the name of the Authority and has been included in capital assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Buildings, building improvements, and equipment are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Alarm equipment	5-15
Radio equipment	3-10
Fire hall equipment	5-10
Fire fighting equipment	5-15
Building improvements	10-15
Building	20
Trucks and vehicles	5-20

**4. Fund equity**

In the fund financial statements, the governmental fund reports reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. There are no designations of fund balance at year end.

**5. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Davison – Richfield Area Fire Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2005**

**II. Reconciliation of government-wide and fund financial statements**

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

The governmental fund balance sheet includes a reconciliation between *fund balance -total governmental funds* and *net assets -governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The details of this difference are as follows:

Capital assets, net of depreciation	<u>\$606,864</u>
Net adjustment to increase <i>fund balance -total governmental funds</i> to arrive at <i>net assets -governmental activities</i>	<u>\$606,864</u>

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances -total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this difference are as follows:

Loss on disposal of fixed assets	\$ 831
Capital outlay	(9,100)
Depreciation expense	<u>87,800</u>
Net adjustment to decrease <i>net changes in fund balances -total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 79,531</u>

**III. Stewardship, compliance, and accountability**

**Budgetary information**

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to May 1, a proposed operating budget is submitted to the Authority Board for the year commencing the following July 1. The operating budget includes proposed expenditures, and the means of financing them, for the General Fund.
2. Public hearings are conducted to obtain taxpayer comments.
3. After the Authority Board reviews the proposed budget, it is then sent to the three municipalities for their approval. The budget is legally adopted on a fund basis after each municipality submits its approval to the Authority Board.

**Davison – Richfield Area Fire Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2005**

**III. Stewardship, compliance, and accountability – (continued)**

**Budgetary information – (continued)**

4. Any revisions to the budget must first be approved by the Authority Board and then by each municipality.
5. Formal budgetary integration is employed as a management control device during the year. Also, the budget is adopted on a basis consistent with generally accepted accounting principles.
6. Budget appropriations lapse at year end.
7. The original budget was not amended during the year.

**IV. Detailed notes on all funds**

**A. Deposits and investments**

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated four banks for the deposit of its funds; JP Morgan Chase, Davison State Bank, and National City. The investment policy adopted by the Board is in accordance with Public Act 196 of 1997 as listed above. The Authority's deposits are in accordance with statutory authority.

The Authority's cash and investments are subject to two different types of risk, which are examined in more detail below:

**Custodial credit risk of bank deposits:**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Authority had \$981,340 of bank deposits (certificates of deposit) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Davison – Richfield Area Fire Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2005**

**IV. Detailed notes on all funds – (continued)**

**A. Deposits and investments – (continued)**

Deposits: – (continued)

Custodial credit risk of investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Authority's name:

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
Government operating money market fund	\$905,215	Counterparty

**B. Capital assets**

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Capital assets being depreciated:				
Alarm equipment	4,662	-	(1,924)	2,738
Trucks and vehicles	1,536,645	-	(73,522)	1,463,123
Radio equipment	59,512	-	(5,691)	53,821
Fire fighting equipment	178,921	-	(29,241)	149,680
Fire hall equipment	107,984	-	(18,159)	89,825
Building improvements	58,476	9,100	(17,082)	50,494
Building	195,000	-	-	195,000
Total capital assets being depreciated	2,141,200	9,100	(145,619)	2,004,681
Less accumulated depreciation for:				
Alarm equipment	(2,971)	(423)	1,924	(1,470)
Trucks and vehicles	(950,053)	(50,784)	73,169	(927,668)
Radio equipment	(46,576)	(3,370)	5,691	(44,255)
Fire fighting equipment	(155,831)	(9,626)	29,154	(136,303)
Fire hall equipment	(72,159)	(10,715)	18,146	(64,728)
Building improvements	(47,215)	(2,882)	16,704	(33,393)
Building	(185,000)	(10,000)	-	(195,000)
Total accumulated depreciation	(1,459,805)	(87,800)	144,788	(1,402,817)
Total capital assets being depreciated, net	681,395	(78,700)	(831)	601,864
Governmental activities capital assets, net	\$ 686,395	\$ (78,700)	\$ (831)	\$ 606,864

**Davison – Richfield Area Fire Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2005**

**IV. Detailed notes on all funds – (continued)**

**B. Capital assets – (continued)**

Depreciation expense recognized was charged to the fire protection function.

Capital assets allocation:

Effective with the reorganization of the Authority the capital assets purchased through December 31, 1999 are allocated to the participating governments in the following ownership percentages: City of Davison – 18.22%, Richfield Township – 26.00%, and Davison Township – 55.78%. These percentages were calculated based on the contributions to the Capital Improvement Fund from 1984 to 1999.

For the period 2000 and forward the capital assets purchased are to be allocated based on the municipal billings paid by each unit for their fire runs divided by the total fire run income. The ownership percentages for these periods are as follows:

<u>Period Ending</u>	<u>City of Davison</u>	<u>Richfield Township</u>	<u>Davison Township</u>
Six months ended June 30, 2000	22.22%	26.84%	50.40%
Year ended June 30, 2001	16.63	22.98	60.39
Year ended June 30, 2002	20.21	24.74	55.05
Year ended June 30, 2003	19.65	23.02	57.33
Year ended June 30, 2004	20.84	21.60	57.56
Year ended June 30, 2005	19.43	28.63	51.94

**C. Fund balance reserves**

Per the Authority's plan of reorganization, the revenues and expenditures incurred by the General fund are allocated to specific fund balance reserves as detailed below:

	<u>Equipment</u>	<u>Vehicles</u>	<u>Contingency</u>	<u>Total</u>
Beginning balance	\$323,371	\$1,499,590	\$ 46,479	\$1,869,440
Revenue	19,543	126,106	335,899	481,548
Interest income	2,286	104,101	330	106,717
Other income	-	-	13,575	13,575
Expenses	(19,458)	-	(367,838)	(387,296)
Ending balances	<u>\$325,742</u>	<u>\$1,729,797</u>	<u>\$ 28,445</u>	<u>\$2,083,984</u>

**Davison – Richfield Area Fire Authority**  
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**June 30, 2005**

**IV. Detailed notes on all funds – (continued)**

**C. Fund balance reserves– (continued)**

The allocation of fire run revenue by reserve is as follows:

- Equipment reserve revenue is based on the number of runs times \$60.
- Vehicle reserve revenue is based on the number of runs times \$387.
- The balance of fire run revenue, \$1,030 for regular runs and \$45 for mutual aid/weather runs, is allocated to the contingency reserve.

For the year ended June 30, 2005, there was a total of 364 runs. 57 of these runs were mutual aid/weather runs billed at \$492 per run to each unit.

The purpose of each reservation is as follows:

- Equipment - to accumulate funds and replace equipment per an approved budget.
- Vehicle - to accumulate funds and replace vehicles per an approved budget.
- Contingency - to cover regular operating expenses of the Authority. This reserve is not to exceed 20% of the annual operating budget excluding any items expensed through the equipment or vehicle reserves.

**D. Long-term lease commitment**

The Authority entered into a seventy-two month non-cancelable operating lease agreement for usage of a copy machine. The agreement started November 2001. The monthly payment is \$160 (2,500 copies @ \$.064 per copy).

Following is the amount due by fiscal year:

2006	\$ 1,920
2007	<u>640</u>
	<u>\$ 2,560</u>

The rental expense for the year ended June 30, 2005 was \$1,919.

**V. Other information**

**A. Retirement plan**

The Authority adopted a defined contribution plan effective July 1, 2003 in-lieu of paying social security. All employees are covered by this plan. The Township contributes 6.20% in-lieu of social security and also matches employee's mandatory contribution of 3% with a 3% match for a total employer contribution of 9.20%. Payroll costs of all employees amounted to \$213,950. During the current year, the General Fund contributed the Authority's portion of the pension cost amounting to \$19,683. Employees made all required contributions (\$6,419) to the plan during the current year. The Authority's policy is to pay pension costs as accrued. The Authority also continued to pay the Medicare portion of social security to the Internal Revenue Service.

**Davison – Richfield Area Fire Authority**  
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**V. Other information – (continued)**

**B. Risk management**

The Authority is exposed to various risks at loss related to property loss, torts, errors and omissions, and employee injuries. The Authority has purchased commercial insurance for coverage of all claims except full time employee unemployment benefits. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The Authority pays unemployment claims on a reimbursement basis.



## **Required Supplementary Information**

**Davison-Richfield Area Fire Authority**  
**Schedules of Revenue, Expenditures, and Changes in**  
**Fund Balances - Budget and Actual**  
**Governmental Fund**  
**Year Ended June 30, 2005**

	<b>Budget</b>		<b>Actual</b>	<b>Over (Under) Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Municipal billings	\$ 553,926	\$ 553,926	481,548	\$ (72,378)
Inspection income	21,800	21,800	13,530	(8,270)
Interest income	12,000	12,000	106,717	94,717
Other income	250	250	45	(205)
<b>Total revenues</b>	<b>587,976</b>	<b>587,976</b>	<b>601,840</b>	<b>13,864</b>
<b>Expenditures:</b>				
Current:				
Administrative costs	1,800	1,800	623	(1,177)
Professional fees	4,000	4,000	3,950	(50)
Building and grounds	19,515	19,515	15,725	(3,790)
Department clerk	29,256	29,256	29,266	10
Dues, memberships, and subscriptions	2,225	2,225	1,610	(615)
Fire Authority meetings	1,860	1,860	1,324	(536)
Insurance	43,650	43,650	42,942	(708)
Office supplies	5,000	5,000	3,741	(1,259)
Special schools and seminars	12,800	12,800	4,138	(8,662)
Telephone	5,000	5,000	4,450	(550)
Utilities	9,375	9,375	11,355	1,980
Miscellaneous expense	4,900	4,900	3,063	(1,837)
Fire prevention	4,000	4,000	3,988	(12)
Equipment maintenance	6,950	6,950	6,756	(194)
Gas, oil, grease, and etc.	4,000	4,000	4,726	726
Labor	236,697	236,697	208,525	(28,172)
Radio maintenance	1,000	1,000	729	(271)
Vehicle maintenance	11,600	11,600	21,440	9,840
Equipment trust expenses	41,830	41,830	19,682	(22,148)
<b>Total expenditures</b>	<b>445,458</b>	<b>445,458</b>	<b>388,033</b>	<b>(57,425)</b>
<b>Excess of revenues over expenditures</b>	<b>142,518</b>	<b>142,518</b>	<b>213,807</b>	<b>71,289</b>
<b>Fund balance at beginning of year</b>	<b>1,870,177</b>	<b>1,870,177</b>	<b>1,870,177</b>	<b>-</b>
<b>Fund balance at end of year</b>	<b>\$ 2,012,695</b>	<b>\$ 2,012,695</b>	<b>2,083,984</b>	<b>\$ 71,289</b>

*See notes to financial statements.*